



NORTH CAROLINA GENERAL ASSEMBLY

Session 2021

Legislative Retirement Note

Short Title: Give LGERS Retirees 2% Bonus.
Bill Number: House Bill 583 (First Edition)
Sponsor(s): Representatives Hardister, Pickett, Paré, and Adcock

SUMMARY TABLE

ACTUARIAL IMPACT OF H.B. 583, V. 1 (\$ in thousands)

	<u>FY 2021-22</u>	<u>FY 2022-23</u>	<u>FY 2023-24</u>	<u>FY 2024-25</u>	<u>FY 2025-26</u>
Local Impact					
Local Governments	35,467	-	-	-	-
TOTAL LOCAL EXPENDITURES	35,467	-	-	-	-

ACTUARIAL IMPACT SUMMARY

Systems Affected: Local Governmental Employees' Retirement System (LGERS)

House Bill 583 (First Edition) grants a one-time cost-of-living supplement of two percent (2.0%) of the annual benefit to retirees in LGERS who were retired as of September 1, 2021. The supplement will be paid in a lump sum on or before October 31, 2021.

Cavanaugh Macdonald, the actuary for the Retirement System, and Hartman & Associates, the actuary for the General Assembly, both estimate that the bill will require a nonrecurring increase in local government contributions of 0.48% of pay in FY 2021-22. The LGERS Board of Trustees has authority to increase the employer contribution rate by this amount if the bill becomes law.

The bill will not increase the unfunded liability of LGERS beyond FY 2021-22 because the additional contributions during the fiscal year are estimated to offset the additional benefits paid out.

ASSUMPTIONS AND METHODOLOGY

The cost estimates of the actuaries are based on the employee data, actuarial assumptions and actuarial methods used to prepare the December 31, 2019 actuarial valuations, except where new assumptions based on the experience study completed in 2020 would have a material impact on the results. Significant membership and financial statistics, assumptions, methods,

and benefit provisions are shown in the following tables:

Membership Statistics (as of 12/31/2019 unless otherwise noted, M = millions)	
	<u>LGERS</u>
Active Members	
Count	132,058
Valuation Compensation (Total)	\$7,066M
Average Age	44
Average Service	9.9
Inactive Members	
Count	79,588
Retired Members	
Count	75,002
Annual Benefits	\$1,479M
Average Age	69
New Retirees During 2020	4,300

Financial Statistics (as of 12/31/2019 unless otherwise noted, M = millions)	
	<u>LGERS</u>
Accrued Liability (AL)	\$30,701M
Actuarial Value of Assets (AVA)	\$27,435M
Market Value of Assets (MVA)	\$28,225M
Unfunded Accrued Liability (AL - AVA)	\$3,266M
Funded Status (AVA / AL)	89%
Required Employer Contribution for FY 2021-22 (as % of pay)	11.35% (non-LEO)
Salary Increase Assumption (includes 3.50% inflation and productivity)	3.50% - 7.75%
Assumed Rate of Investment Return	7.00%
Cost Method	Entry Age Normal
Amortization: 12 year, closed, flat dollar	
Demographic assumptions based on 2010-2014 experience, RP-2014 mortality, and projection of future mortality improvement with scale MP-2015	

Benefit Provisions	
	<u>LGERS</u>
Formula	1.85% x Service x 4 Year Avg Pay
Unreduced retirement age/service	Any/30; 60/25; 65 (55 for LEO)/5
Employee contribution (as % of pay)	6%

Further detailed information concerning these assumptions and methods is shown in the actuary's report, which is available upon request from the Fiscal Research Division.

TECHNICAL CONSIDERATIONS

N/A.

DATA SOURCES

Cavanaugh Macdonald Consulting, LLC, "One-Time Pension Supplement for State, Local, Judicial and Legislative Retirement Systems", February 18, 2021, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "1% Non-Recurring Supplement for Retirees in the TSERS, LGERS, CJRS, and LRS", February 17, 2021, original of which is on file in the General Assembly's Fiscal Research Division.

LEGISLATIVE ACTUARIAL NOTE – PURPOSE AND LIMITATIONS

This document is an official actuarial analysis prepared pursuant to Chapter 120 of the General Statutes and rules adopted by the Senate and House of Representatives. The estimates in this analysis are based on the data, assumptions, and methodology described above. This document only addresses sections of the bill that have projected direct actuarial impacts on State or local government retirement systems and does not address sections that have no projected actuarial impacts.

CONTACT INFORMATION

Questions on this analysis should be directed to the Fiscal Research Division at (919) 733-4910.

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Signed copy located in the NCGA Principal Clerk's Offices